BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001

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JOINT TRIAL BRIEF

OF

E-STAMP CORPORATION

AND

STAMPS.COM, INC.

Timothy J. May
Patton Boggs LLP
2550 M Street, NW
Washington, DC 20037-1350
Tel. 202/457-6050
Fax. 202/457-6315

Counsel for
E-Stamp Corporation

David P. Hendel
Wickwire Gavin, PC
8100 Boone Blvd., Suite 700
Vienna, VA 22182-2683
Tel. 703/790-8750
Fax. 703/448-1767

Counsel for
Stamps.com, Inc.

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E-Stamp Corporation (E-Stamp) and Stamps.com, Inc. (Stamps.com) hereby submit their joint trial brief:

I. PC Postage Produces High Quality, Automation-Compatible Addresses, Postage Indicia, and Mailpieces.

PC Postage is a new form of postage that allows postal customers to purchase postage on the Internet and print it directly from their own personal computers. On August 9, 1999, the Postal Service approved both Stamps.com and E-Stamp for full commercial launch of this service. (Kuhr, p. 6; Jones, p. 6.) Neopost, Inc. and Pitney Bowes, Inc. have also received approval to provide this service. The postage indicia produced by this service is a two-dimensional barcode called the Information Based Indicia (IBI). The IBI conveys mail processing and security related data in 19 separate fields. (Kuhr, pp. 15 -1 6.) The IBI indicia contains much more information than a traditional meter strip and provides an information platform that can be extended beyond current data specifications

The PC Postage program is the first new form of postage approved since 1920 and was designed by the Postal Service to be the most cost efficient and secure method of postage evidencing in the Service's history. (Jones, pp. 6, 8.) The system was designed to eliminate fraud that had been prevalent with traditional meters. (Jones, p. 7.) There are two types of PC Postage: closed and open systems. The closed system is simply an updated postage meter. Specialized postage printing hardware attaches to a computer and prints out postage using the IBI indicia (but not containing fully coded IBI information). The closed system does not require address cleansing, ZIP Code application, and POSTNET barcode application. Neopost's "Simply Postage" service is an example of an closed IBI system. (Kuhr, p. 25; Jones, p. 9.) We do not seek a discount for mailpieces produced by closed IBI systems.

Both E-Stamp and Stamps.com provide open system IBI solutions. Open systems require user intervention in address matching, verification, and cleansing, and they produce a printed address that contains the correct ZIP+4 Code, an 11-digit POSTNET barcode, and a FIM code (or fluorescent striped label). (Id.) Open system solutions must follow the Postal Service 's Performance Criteria for Information-Based Indicia and Security Architecture for Open IBI Postage Evidencing Systems (PCIBI-O). (Library Reference Stamps.com-LR-1.) We seek a discount only for mailpieces produced by open systems. All references to IBI or PC Postage in the remainder of this trial brief refer only to open system solutions.

Currently, there are two different approaches to purchasing and downloading PC Postage. E-Stamp employs a Postal Security Device (PSD) that attaches to the customer's computer and to which postage is downloaded and stored. (Jones, p.7.) Stamps.com employs a software-only solution that allows postage to be stored off-site and applied while the user is on-line. (Kuhr, p. 6.) Aside from this difference in the way postage is stored, both services must meet the same address cleansing and quality requirements.

All open system PC Postage vendors must go through rigorous system testing before receiving approval from the Postal Service to offer their service commercially. Stamps.com underwent three separate beta tests, and USPS auditing for accountability, over the course of three years before receiving full commercial approval from the Postal Service. (Kuhr, p. 6.) E-Stamp also underwent lengthy and rigorous beta testing by the Postal Service before receiving approval. (Jones, p. 6.)

A. The PC Postage Printing Process Produces Automation-Compatible Mailpieces.

PC Postage users must meet strict print quality requirements before they are permitted to print out addresses and postage. Before a customer is authorized to use PC Postage, he or she must first pass a registration process which ensures proper printer configuration and media output while printing the address and postage. (Kuhr, pp. 10 - 11.) For example, the customer must successfully pass the Print Alignment test, in which a sample test envelope is printed. The customer must print out a separate Quality Assurance Envelope at commencement of service and again every 180 days thereafter. (Kuhr, p. 13, 31 - 32.)

When printed on an envelope, the delivery address placement and format meets the standards set out in USPS Publication 25, *Designing Letter Mail*, and is fully automation compatible. The address also contains the IBI indicia, a ZIP+4 Code, an 11-digit POSTNET barcode, and a FIM D code. (Kuhr, pp. 14 - 17; Jones, p. 8.)

B. PC Postage Requires Address Verification and Cleansing for Each Mailpiece.

Mailpieces produced by PC Postage users meet or exceed the quality, accuracy, and currency required for automation compatibility. Before a customer may apply an address or postage using PC Postage, the address must first be verified and corrected against a Coding Accuracy Support System (CASS) certified address database. The software simply will not allow a customer to print an address or postage until the address has been verified and corrected. This address cleansing process produces a mailpiece quality that meets or exceeds that produced by the largest and most sophisticated mailers. While address cleansing produces a high quality mailpiece, no discount is currently offered to the customer for taking these actions. Thus, witness Jones notes, it is one of the most disliked features of the PC Postage open system and is a major barrier to customer acceptance. (Jones, p. 9; Kuhr, p. 21; Heselton, p. 43.)

The address verification, matching, and cleansing process is described in detail by witness Kuhr. The customer enters the address, and the system software compares the address to USPS's Address Matching System (AMS) database. This ensures that PC Postage contains the correct ZIP Code and 11-digit POSTNET barcode for each address. If there is a single address match, but changes are still required to meet USPS addressing standards, the software automatically modifies the address. The customer must then accept the address as modified or the mailpiece will not be printed out. Frequently, however, there are many potential matches, and the customer must choose the best match and then accept the modified address produced by the software. (Kuhr, pp. 21 - 25; see also Jones, p. 10.)

USPS address matching requirements for PC Postage are so strict that the system will not allow the customer to print out an address or postage unless an exact match against USPS's AMS database is found. Because USPS's AMS address database is not always completely accurate, customers find they cannot create mail pieces to every address on their mailing lists, even if they know with certainty that some of those addresses are correct. The Postal Service is working with PC Postage vendors to allow for an override feature for addresses that cannot be matched against the USPS address database. (Jones, p. 10.) If permitted by USPS, PC Postage vendors could easily make any or all of the currently mandatory mailpiece automation features optional to the user. The software could also be configured to provide discounted postage rates for addresses that meet automation standards and regular postage rates for mailpieces that do not meet such standards. (Kuhr, p. 35.) Currently, this is not an option. All pieces must meet USPS automation compatibility standards.

C. PC Postage Substantially Improves Upon the Customer's Past Addressing Practices and Increases Use of Express and Priority Mail.

Customers who use PC Postage substantially improve upon their past addressing practices, and also increase their use of USPS's Express and Priority Mail services. Based upon an independent survey conducted by witness Leora Lawton, two-thirds of Stamps.com's customers stated that their outgoing mailpieces never or infrequently contained a ZIP+4 Code prior to using PC Postage. When a ZIP+4 Code was used, the customer generally obtained it from an envelope or an old mailing list. (Lawton, pp. 14 - 15.) So even the minority of customers who did use ZIP+4 Codes obtained them from sources that were not necessarily current or accurate.

Similarly, prior to using PC Postage, few customers regularly applied a POSTNET barcode to their mail -- about 20 percent. (Lawton, p. 16.) And it is very likely that this figure is substantially over-stated. Many of those customers who said they had applied POSTNET barcodes in the past to their mail must have believed they were being asked about their current mailing practices. Lawton deduces this because when these customers were asked what software they used to apply the POSTNET barcodes to their mail, the first and second most popular answer was Stamps.com itself! (Lawton, pp. 16 - 17.) Use of PC Postage also greatly reduced the number of times the customer would visit the Postal Service and use window services. The overwhelming majority, 84 percent, stated that their use of PC Postage reduced the number of trips they make to the post office -- on average about 4.5 fewer trips per month. (Lawton, pp. 10 - 11, 18.) That amounts to roughly one million fewer visits to post office windows each month for Stamps.com customers alone. (Lawton, p. 18.)

PC Postage also benefited the Postal Service by increasing customer awareness and use of Express Mail and Priority Mail. Over half of PC Postage customers gained greater awareness of these USPS products through their use of PC Postage. Nearly two-thirds stated that PC Postage made it easier for them to use Express Mail and Priority Mail, and one-third had already increased their usage of Express Mail and Priority Mail since using PC Postage. (Lawton, pp. 12 - 13.)

D. As More Individuals and Small Businesses Gain Access to the Internet, PC Postage Use Is Expected to Increase.

PC Postage cannot be used unless an individual or business has a PC and has access to the Internet. Many individuals and small businesses now have both PCs and access to the Internet. As of 1998, the 6.3 million small businesses had access to a PC (85% of all small businesses). By the year 2003, it is expected that just under 7.5 million small businesses with have access to a PC (91.7% of all small businesses). By the end of 1998, 61.5% of small businesses with a PC had access to the Internet. This number is expected to rise to 79.3% by the end of the year 2003. (Boggs, pp. 25 - 29.) Thus, the potential user group for PC Postage is very large.

Unlike other business segments, small business spending on First Class postage is expected to increase by 6.9% over the next several years. In 1998, small businesses spent $6.7 billion on First Class postage. This is expected to increase to over $9.4 billion by 2003. (Boggs, p. 33.) Based on these figures and a survey he conducted, witness Boggs thus concludes that spending on PC Postage will increase from $6.6 million in 1999 to just over $1 billion in 2003. Heselton also notes that about one-half of individuals have access to a PC and the Internet. (Heselton, p. 38.) The effect that PC Postage will have on the Postal Service thus cannot be ignored in this rate case.

E. Proposed Discounts of 4 Cents and 3 Cents Per Piece.

Both E-Stamp and Stamps.com believe that mail prepared by open system PC Postage products merit rate discounts. For purposes of rate discounts, E-Stamp breaks down PC Postage into two categories. Category 1 is any mail piece created with an open system PC Postage product, regardless of mail class or other mail piece characteristics. Category 2 is any mail piece created with an open system PC Postage product that is printed directly on an envelope, contains a FIM code, has an address that is an exact match to the AMS address database, has a fully delivery point POSTNET barcode printed with the address as sell as the delivery point included in the indicia, and does not weigh more than the breakpoint for letter mail. (Jones, pp. 13 - 14.) Category 2 mail is essentially identical to Qualified Business Reply Mail. (Heselton, p.8.)

For Category 2 mail, both E-Stamp and Stamps.com propose a 4 cent discount. (Heselton, p. 4; Jones, pp. 13 - 14.) As discussed below, E-Stamp and Stamps.com use different methodologies to determine the attributable costs savings and appropriate discount for such mail, but both companies reach the same conclusion. The similar results obtained from these two different methodologies reinforce the soundness of each party's cost avoidance determination and discount recommendation.

For Category 1 mail, Stamps.com proposes a 3 cent discount for First Class letters which have address labels. (Heselton, p. 6.) While E-Stamp has offered no specific discount recommendations of its own for Category 1 mail, E-Stamp does not oppose Stamps.com's recommendation.

II. Mailpieces Produced by PC Postage Avoid Substantial Processing and Delivery Costs.

The extensive mail preparation activities undertaken by PC Postage customers results in the Postal Service avoiding substantial costs in processing and delivery such

mail. PC Postage customers should thus receive a discount for the cost savings benefits their preparation activities create. Both E-Stamp and Stamps.com have offered expert witnesses testimony on the cost avoidance and savings generated by PC Postage mail and the proposed discount for it. Even though these experts (Prescott and Heselton) use different methodologies to calculate cost avoidance and savings, both experts reach essentially the same conclusion and recommended discount proposal. Both Prescott and Heselton propose a 4 cent discount on First Class letters and postcards with IBI open system postage applied directly to the mailpiece. Heselton proposes a 3 cent discount for First Class letters with IBI open system postage applied to labels.

A. Prescott's Testimony on Cost Avoidance and Recommended Discount.

Roger Prescott proposes a 4 cent discount for First Class open system IBI letters with addresses printed directly on the envelope (Category 2 mail). His proposal is based on his determination that such mail decreases USPS's costs between 5.0 cents and 6.2 cents per piece, and decreases IBI flat mail processing costs by 5.1 cents per piece. (Prescott, p. 3.) As a preliminary matter, Prescott notes USPS's admission that its cost data and underlying volume data presented in this rate proceeding do not take into account any of the cost avoidance that will be achieved from IBI mail. (Prescott, p. 6.) Thus, the cost savings that will be obtained from processing IBI mail have not been deducted by USPS from its projected test year costs.

Next, Prescott examines USPS LR-I-81, which calculates the cost differences for letters related to metered mail and Bulk Metered Mail (BMM). Because PC Postage is generally entered into the mailstream on a single piece basis, Prescott removes from this study the cost savings attributable to presortation, which, based on USPS data, he determines is 0.13 cents per piece. (Prescott, pp. 7 - 8.) Thus, based on USPS's own

cost study, the net cost savings for automation-compatible First Class single piece mail is 6.15 cents per piece. (Prescott, p. 8.)

Alternatively, Prescott examines USPS witness Miller's testimony to identify the worksharing related cost differentials between non-automation metered letters and automation BMM letters. Prescott again eliminates the cost savings in these figures attributable to BMM as opposed to single piece. In this analysis, he utilizes the USPS estimated cost savings derived from such presortation which is 0.091 cents per piece. Thus, the worksharing-related cost savings achieved by single piece IBI mail is 5.024 cents per piece. (Prescott, p. 9.) Prescott also determines the cost savings from IBI automatible First Class flat mail to be 5.101 cents per piece. (Prescott, pp. 10 - 11.)

Depending upon which of the above analyses are used, a 4 cent discount would pass through either 65% or 80% of the volume variable cost savings to IBI customers. (Prescott, p. 12.)

B. Heselton's Testimony on Cost Avoidance and Recommended Discount.

Frank Heselton also proposes a discount of 4 cents for Category 2 mail (First Class open system IBI letters when the address is printed directly on the envelope). He also proposes a discount of 3 cents when the address is printed on a label. Heselton calculates the cost avoidance of Category IBI mail using a completely different methodology than that employed by Prescott. Heselton develops these avoided costs by reference to the costs avoided by Qualified Business Reply Mail (QBRM) and the addition of other IBI cost savings. (Heselton, p. 8.)

Both QBRM and IBI mail enter the mailstream as single piece mail and both meet the same standards for automated processing. Both IBI mail and QBRM contain accurate addresses, ZIP+4 Codes, 11-digit POSTNET barcodes, and FIM codes. Thus, both IBI mail and QBRM should avoid the same RBCS and incoming processing costs.

(Heselton, p. 9.) Heselton notes that USPS employs handwritten single-piece letters as the appropriate benchmark for determining QBRM cost avoidance. While the term "handwritten mail" is employed, the key aspect is not so much whether the address is handwritten or printed, but whether the mailpiece contains a correct, pre-applied POSTNET barcode and FIM code. (Id.) The Postal Service's discount proposals recognize this. After all, it is very unlikely that any QBRM mailpieces would revert to "handwritten" status if the discount were eliminated.

USPS witness Campbell testifies that QBRM avoids 3.38 cents per piece using the Postal Service's methodology for measuring attributable costs and 2.99 cents per piece following the methodology used by the Commission in R97-1. In determining IBI cost savings, Heselton uses the lower 2.99 cents per piece estimate. (Heselton, p. 11.)

In addition to these savings, IBI mail also reduces the Postal Service's need to return mail to the sender because of address deficiencies. These savings are not included in Campbell's estimate of QBRM costs savings. (Heselton, p. 11.) Heselton's testimony calculates these savings as well. Heselton notes that all IBI mail must go through address cleansing, which frequently corrects deficiencies in the delivery line of an address. Delivery line address deficiencies can lead USPS to incur two additional types of cost: (1) the cost incurred by additional carrier time and effort expended in determining the correct address for, and delivering, a mis-addressed mailpiece; and (2) the cost incurred in returning such mail to the sender if it cannot be delivered as addressed.

To be conservative, Heselton does not include in his cost savings calculation any of the cost savings from the first category (i.e., mis-addressed mail requiring extra delivery effort). (Heselton, pp. 20 - 21.) Instead, Heselton calculates only the cost savings realized by the reduction in return-to-sender mail. To do this, he uses two USPS sponsored Library References on undeliverable-as-addressed mail: USPS-LR-I-192 and USPS-LR-I-82. (Heselton, pp. 13 - 14.) From these studies, Heselton

determines that IBI mail's address cleansing feature avoids an additional 1.71 cents of cost from reduced return-to-sender mail. To maintain his conservative approach, and as a contingency for possibly overstated return-to-sender costs in USPS's own study, he reduces this amount by one-third, arriving at an additional cost savings of 1.14 per piece. (Heselton, pp. 14 - 19.) Heselton thus conservatively concludes that IBI letter mail avoids costs of 4.13 cents per piece. (Heselton, p. 21.)

Heselton concludes that it is appropriate to pass along 4 cents of these avoided cost and worksharing savings as a discount to IBI mailers for letter mail upon which the IBI address is printed directly on the mailpiece. Heselton concludes that a 100 percent pass-through of cost avoidance would be appropriate based on previous pass-through determinations in similar circumstances. (Heselton, pp. 28 - 30.) To preserve whole integer rates for First Class mail, he reduces the pass-through from 4.13 to 4 cents. (Heselton, p. 30.)

For addresses which are printed on labels for First Class letter mail, Heselton recommends only a 3 cent discount. He reduces the pass-through of cost savings to make allowances for the possibility of user error in applying the address labels on the mailpiece. (Heselton, p. 31.)

III. PC Postage Mailpieces Should Receive a Discount Based on Substantial Cost Avoidance in Processing and Delivering PC Postage Mailpieces.

E-Stamp and Stamps.com propose this discount because the use of PC Postage results in substantial cost avoidance for the Postal Service and because PC Postage users perform the activities that result in these savings. Witness Jones notes that the address cleansing requirement of PC Postage is "one of the most disliked features" of the service. (Jones, p. 9.) Jones also points out that all other postal customers who perform like address cleansing activities receive substantial discounts for their efforts. (Id.)

Witness Heselton examines the classification and rate-setting requirements in the Postal Reorganization Act, in conjunction with past PRC recommended decisions and court rulings. He concludes that the proposed discounts for IBI mail are in full accord with the principles and guidelines set out in these laws and rulings. (Heselton, pp. 33 - 43.) Heselton notes that the proposed discount does not "de-average" rates, and has no significant impact on other mailers. (Heselton, p. 35.) The discount fully pays for itself because the cost savings that will be achieved have not been included by USPS in its test year figures. (Prescott, p. 2.)

IV. Conclusion

From time to time, many ideas have been put forward for single piece discounts. These well-intended proposals have suffered from inherent drawbacks, and thus have either been denied or not implemented. Moreover, for over 25 years, workshare discounts for mail preparation have effectively been unavailable to individuals and small businesses because practical circumstances prevented their use. Practical circumstances have now changed. PC Postage provides low cost tools for individuals, small businesses, and other small mailers to create single-piece First Class letters and cards that meet automation-compatible standards. An economic incentive, in the form of a rate discount, is needed for those groups to take full advantage of these tools and for the Postal Service to maximize cost avoidance. (Heselton, p. 43; Jones, p. 11.)

The proposed discounts are revenue neutral, conservatively based, and in accord with all applicable laws and rulings. The Commission should recommend them.

Respectfully submitted,

Timothy J. May / by DPH

Timothy J. May
Patton Boggs LLP
2550 M Street, NW
Washington, DC 20037-1350
Tel. 202/457-6050
Fax. 202/457-6315

Counsel for
E-Stamp Corporation

David P. Hendel
Wickwire Gavin, PC
8100 Boone Blvd., Suite 700
Vienna, VA 22182-2683
Tel. 703/790-8750
Fax. 703/448-1767

Counsel for
Stamps.com, Inc.

CERTIFICATE OF SERVICE

I hereby certify that I have this 29 day of June 2000, served the foregoing document in accordance with the Commission's Rules of Practice.

David P. Hendel